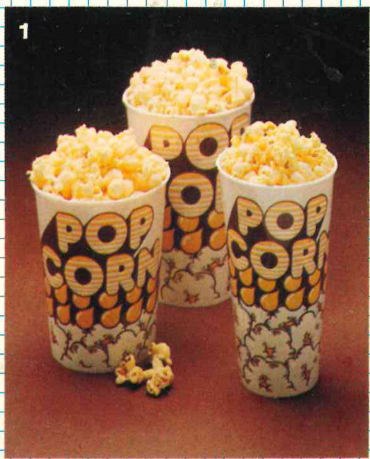
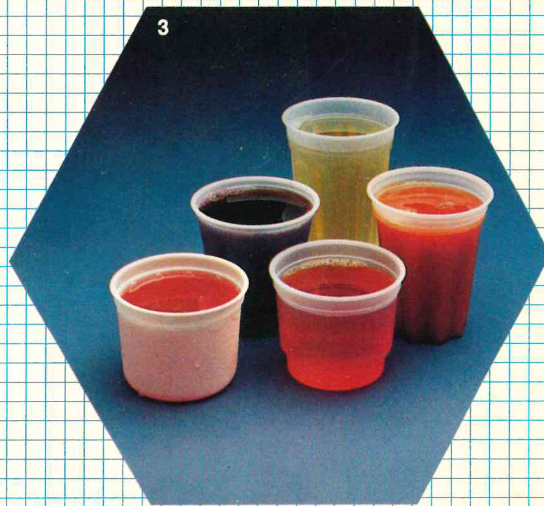
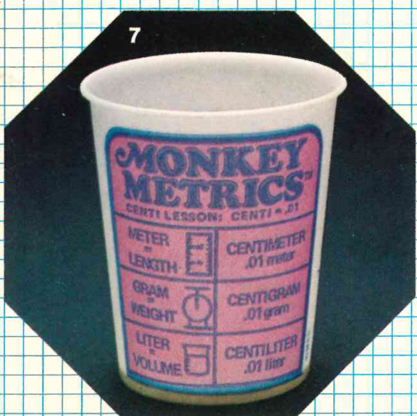
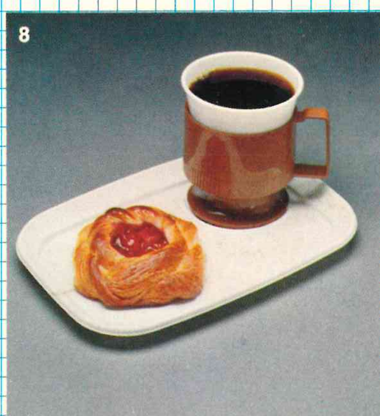
Maryland Cup Corporation Annual Report 1975









Maryland Cup in Today's Food Service Economy

An integral part of today's modern food service economy, Maryland Cup Corporation is the largest independent manufacturer of food service disposables including paper and plastic cups, bowls, dishes, and cutlery and containers for dairy and other food packaging. It also is the world's largest producer of ice cream cones and drinking straws, and a manufacturer of book matches and other single service products. Most of its products are marketed under the "Sweetheart" and "Eat-It-All" names.

Started as a family-owned ice cream cone bakery in 1911 (only seven years after the first cone was introduced at the St. Louis Exposition in 1904), the Company today has sales of more than $265 million annually and 14 plants manufacturing disposables and 12 ice cream cone bakeries. It also has relatively modest joint ventures in the United Kingdom, Holland, Spain, Japan and Canada.

Maryland Cup entered the single service cup and container market in 1950; its annual sales that year were $11 million. In the quarter century since, it has grown with the evolution of disposables as a basic part of food service. The Company has more than kept pace with the spectacular expansion, first, of beverage vending, then, of drive-ins, fast food chains and institutional mass feeding in plants, hospitals, schools and colleges. In each of these mass markets—and in ice cream and other food packaging—it now holds a significant position.

This dramatic growth has been achieved through an innovative systems approach to marketing. To spur the sale of its own single service products, it makes available to customers comprehensive systems which increase sales and enhance efficiency. These systems include a wide range of unique Maryland Cup-designed filling and packaging equipment for concessionaires, institutions, dairies and other food processors, as well as special promotional programs for each of the markets Maryland Cup serves. The Company also provides the service of technical and marketing consultants to solve individual customer problems.

Publicly-owned since 1961, Maryland Cup stock is listed on the New York Stock Exchange (symbol: MDC). The Company has approximately 4,700 shareholders. It is the only major publicly-owned company in its field; others are either subsidiaries or divisions of multi-industry firms or smaller privately-owned companies.

Contents

Annual Meeting

The annual meeting of shareholders of Maryland Cup Corporation will be held at 10 a.m. EST, February 6, 1976, at the Company's offices, 10100 Reisterstown Rd., Owings Mills, Maryland.

The 10-K Annual Report for fiscal 1975 filed with the Securities & Exchange Commission is available free to all shareholders of the Company upon request. If you would like a copy, please write to Eugene Foreman, Secretary, Maryland Cup Corporation, Owings Mills, Maryland 21117.

Popcorn At The Superdome: *American leisure-time patterns have built big markets for food and drink disposables. At the New Orleans Superdome (above) and hundreds of other stadiums and arenas, special imprint Maryland Cup containers are used for popcorn and cold drinks—the latter dispensed and capped by Company-developed Speed-Fill systems.*

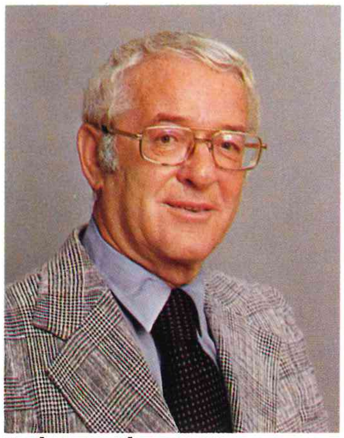
Financial Highlights

For the fiscal years ended September 30.

	1975	1974	1973
Net Sales	**$264,818,621**	$228,425,132	$189,454,595
Costs and Expenses	**$241,059,701**	$208,657,638	$167,538,339
Provisions for Federal and State Income Tax	**$ 9,166,019**	$ 7,564,544	$ 9,120,638
Net Income	**$ 10,466,287***	$ 9,314,808*	$ 10,073,779
Earnings Per Share	**$2.41***	$2.14*	$2.31
Operating Properties Net	**$111,225,757**	$103,758,351	$100,156,837
Shares of Common Stock Outstanding	**4,339,990**	4,339,990	4,339,990

*1975 and 1974 earnings reported under LIFO.

President's Letter



Arthur H. Shapiro

To Our Shareholders:

In a year during which the combined pressures of recession and inflation weighed heavily on the economy, Maryland Cup Corporation not only maintained its unbroken record of year-by-year sales increases but also achieved the highest earnings in its history.

For the fiscal year ended September 30, 1975, consolidated net sales rose to $264.8 million, up 16 percent from fiscal 1974 volume of $228.4 million. Net earnings for fiscal 1975 increased 12 percent from the previous year to $10.4 million or $2.41 per share of common stock.

Also gratifying was our general financial position at year-end. As of September 30, book value per share was at an all-time high of $24.68; we had no short-term bank debt outstanding and were in an excellent cash position. Thanks to a $25 million private placement of senior notes placed last May with a group of eight insurance companies, we have adequate financing for continued growth for the next several years. Our senior debt is rated A by Standard & Poor's, Moody's and Fitch.

The 1975 results reflect our own corporate strategies and marketing techniques and the healthy contra-recessionary growth of most of the principal markets for food service disposables. A review of the major markets we serve—and our position in each—follows this letter. But some highlights may be noted here:

In dairy and food product packaging, our paper and plastic container sales increased significantly, particularly in the cultured products field (yogurt, cottage cheese, sour cream, etc.). This is attributable both to our technical support—which provides food processors with unique Maryland Cup developed systems for packaging these semi-solid foods—and to new containers with high merchandising appeal. While Maryland Cup is a relative newcomer in cultured products packaging, we have become an important factor in this business. In the ice cream field, the Company for several years has been a leading producer of round containers for premium ice cream brands and ice cream novelties; our sales in this area were enhanced by the increased popularity of quality ice cream in 1975.

In hospitals and nursing homes—a huge market for food service disposables, whose potential is just beginning to be developed—two equipment systems helped our institutional specialists gain access to decision-making food managers. These were the new Sweetheart Serving System—mobile carts which keep food hot electronically on individual trays from kitchen to patient's bedside—and the High-Speed Beverage Cart, which is basically a juice-filling machine and is now in use in more than 120 institutions. Both systems use Maryland Cup products.

In elementary and secondary schools, our promotions to help increase student participation in the school lunch and breakfast programs were eminently successful in introducing Maryland Cup products in scores of new school systems.

Despite the recession and contrary to many projections, the fast food restaurants—which are dependent on disposables—had a record sales year, increasing their volume by an estimated 14 percent. Maryland Cup is an important supplier to the fast food industry. Dramatically changing American family lifestyles indicate continuing growth of this market for the foreseeable future.

Return of the ice cream parlor in modern form and the boom in ice cream sales resulted in the best profit year for our ice cream cones in Maryland Cup's history.

Consumer sales of our cups, plates, plastic cutlery and straws also were at record levels, thanks both to our broadened merchandising efforts and the increasing year-round use of disposables in the home.

For a full understanding of what happened in our business during the year, a brief discussion of corporate strategies relating to inventories and production in a period of deep economic uncertainty may be in order. Our primary customers—particularly the wholesalers—had built up large inventories of our products in 1974 in anticipation of shortages and price increases. During the first half of our 1975 fiscal year—from October 1, 1974 to March 31, 1975—no longer fearing shortages or price increases, they cut back sharply on orders, bringing their inventories down to normal levels. Meanwhile, our inventories of finished goods had built up to very high levels. A program to cut production and reduce our inventories was carried on throughout the year. As a result, our finished goods inventories at year-end were down to levels lower than at the start of the year.

During fiscal 1975, the Company spent $18.5 million for capital programs, including new and improved manufacturing equipment and added warehousing facilities. The largest single expenditure was for a new $2.2 million, 188,000 square foot warehouse and distribution center for our Sweetheart Plastic Division at Wilmington, Mass.; this warehouse is now in operation. Another 230,000 square foot warehouse—which we will lease—will be built in 1976 adjacent to our Owings Mills, Maryland, plant.

In our foreign businesses, the paper container and ice cream cone operations in Holland, the match operations in Canada and Spain, and the ice cream packaging operations in Japan all were profitable. However, in England, Sweetheart Plastics, Ltd. had a loss because of depressed conditions in the dairy products business there, resulting in a net loss from foreign operations of $251,735, or 5¢ per share.

In May, 1975, Edward M. Cummings, Executive Vice-President of Continental Illinois Bank & Trust of Chicago, was elected to the Board of Directors to fill a Board vacancy.

For their contribution to the successes of the year and their hard work and dedication—in the face of some hard problems—we are grateful to the Maryland Cup managerial, sales, marketing, technical and manufacturing staffs and employees. We also owe thanks to our customers for their strong support.

We have started the new year well. From where we stand today we look forward to another year of growth in fiscal 1976.

Sincerely,

Arthur H Shapiro

Arthur H. Shapiro
President

December 4, 1975

Institutional Markets

Hospitals Begin To Use New Serving System, School and College Programs Expand

Hot food—at just the right temperature, with no over-cooking or nutritional loss—is served to patients from 16 unique Sweetheart Serving System Carts in a modern 320-bed nursing home in the New York area. Each of the mobile battery-powered carts holds 20 trays; each of these TempTrays® has two built-in electronic heating units—for main course plate and soup bowl—which are individually activated by push buttons on a control panel. There is no sideways transfer of heat from the heating units to other foods on the tray. Maryland Cup's Copley Square coordinated square-round disposable plastic dinnerware (above), for which the Serving System was designed, fits precisely into the tray's locating rings.

1975 was a year of significant evolution of the principal institutional markets, in each of which Maryland Cup is a major supplier of food service disposables. Two of these markets in particular—health care institutions and schools—have an enormous potential for use of disposables.

Significant new Maryland Cup systems and programs gave the Company important access to hospitals, nursing homes, schools and other institutions at decision-making managerial levels. Also, an important addition was made to our paper and plastic food service disposable lines, with the introduction of "Simple Elegance," an economical line of plastic plates, bowls and dishes.

Health Care

Production was begun of the unique new Sweetheart Serving System Carts for hospitals and nursing homes which were successfully market-tested during the year and placed in a number of institutions. In fiscal 1976, current projections are that several hundred of these carts will be in use, opening up entirely new segments of the hospital-nursing home market for disposables. The mobile battery-powered carts solve the serious hospital problem of keeping

High-Speed Beverage Cart for institutions is designed to use Sweetheart cups of various sizes.

food hot from kitchen to patient's bedside—and for up to three hours—with no overcooking or loss of nutritional value.

The Serving System was especially designed to be used with our Copley Square plastic plates and bowls. Each serving cart holds 20 trays and the temperatures of the dishes on the tray are controlled electronically. First year market evaluations indicate that one 400-bed hospital using 20 carts has a potential in new sales for Maryland Cup of $80,000 in disposables annually for patient service alone, not counting employee and visitor meals.

Another new Maryland Cup institutional system, the High-Speed Beverage Cart, has given us entree into more than 120 institutions. With this compact, self-contained system one operator can fill and cap up to 2,500 cups of hot or cold beverage in an hour. The Beverage Cart can pay for itself in less than a year through savings on capping and labor. The equipment also can be used to cap preportioned servings of desserts and other foods, also at big savings.

Schools

On October 6, 1975, the Congress overwhelmingly voted a $2.7 billion extension and broadening of the Federal school lunch and breakfast programs. This helps ensure continuation and growth of this important food service market, in which the use of disposables has been increasing steadily. The potential for sales can be indicated by the scope of the school lunch and breakfast programs. In 1975, more than 88,000 schools served a total of 25.3 million lunches daily and 13,800 served 2 million breakfasts. To help schools increase student participation in the lunch and breakfast programs—a critical problem because Federal subsidies are based on the number of meals served—Maryland Cup is making available special programs, along with complete menu planning for school dietitians. These make school meals highly attractive to children while meeting Federally approved nutrition standards. The Funday School Lunch Program, initiated two years ago, is now being used in hundreds of schools

"Subs," pizza, Super Shakes, french fries–foods that are attractive to school children and also provide meals that meet or exceed government nutrition standards–are part of menus developed for the Funday program.

throughout the country—along with Maryland Cup products.

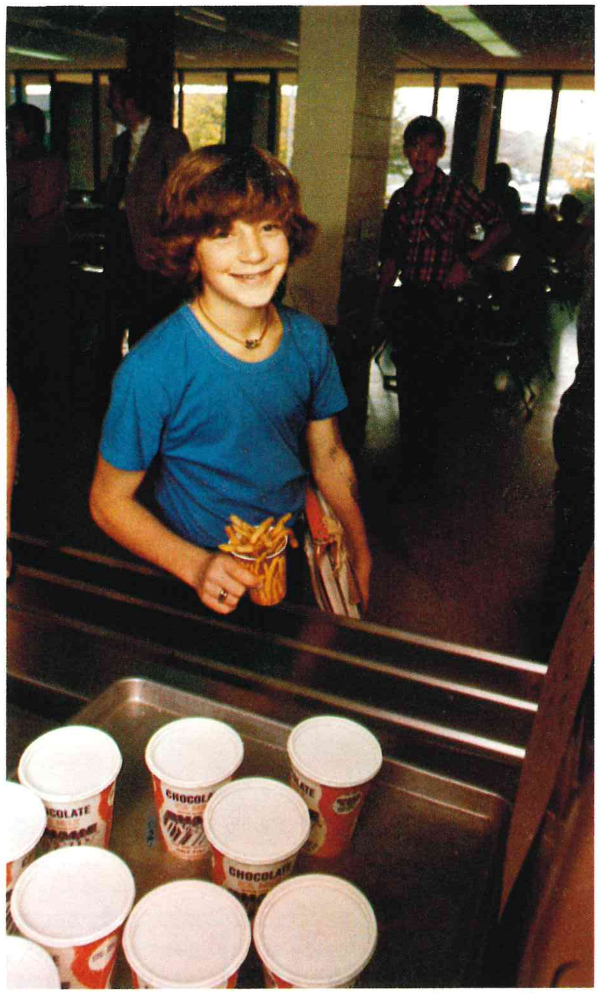
Another Maryland Cup innovation was the "Star Kid" elementary school breakfast program. It includes posters and coloring sheets that teach children graphically what foods to choose for breakfast. Star badges are awarded for cleaning plates or learning the Basic Four groups of foods. Popular Sweetheart products used in the breakfast program include plates, cups and bowls.

A new and highly popular "Monkey Metric" line of educational paper cups and teaching charts—which help teach children the metric system through humorous illustrations—also increased sales to elementary schools.

Colleges and Universities

The college feeding market involves entirely different problems than the schools. In the more than 2,000 colleges that serve meals, the competition with off-campus restaurants has become acute. In fact, during the past year a number of fast food companies have entered college feeding—at the invitation of the colleges themselves. To help the college food managers compete with off-campus restaurants—and in the process expand use of Maryland Cup dispos-

Something extra to attract students to the school cafeteria is provided by colorful posters and other special merchandising materials supplied by Maryland Cup as part of its Funday program.


Maryland's bright new french fry cup helps sell even more of this menu favorite to students. Super Shakes, in foreground, are popular too.

ables—the Company stepped up its special Funday Fare program. This features a dozen different regional and foreign food menus designed in consultation with institutional food specialists. Maryland Cup consultants also provide complete planning for the college food service administration to set up and merchandise its own fast food operation.

Business and Industry

Industrial food service volume in plants and offices, particularly through vending machines, was affected by plant layoffs and shutdowns. Maryland Cup has a solid base in this market and should benefit as the economy recovers. The drive to cut costs in a recessionary-inflationary economy has focused attention on the value of single service tableware in company cafeterias. Such cafeterias utilizing the Sweetheart Control Food Service, have reported savings up to 30 percent through use of disposables; these savings particularly were in labor, reduction of food waste, elimination of pilferage and breakage, and in preportioning of foods.

The year saw continuing expansion of office coffee service, provided by an increasing number of food service companies to offices which are not large enough to warrant installation of

Monkey Metrics—cups to learn by.

vending machines. For example, one leading contract feeding firm, a large customer of Maryland Cup, now has 60,000 coffee installations throughout the country.

A Unique Marketing Approach

Maryland Cup's marketing approach to the institutional market is unique in the business of food service disposables. The Company's institutional market managers, operating throughout the United States, function as a professional consulting staff. They work with institutions on a client/consultant problem-solving basis, and provide ongoing service and a continual exchange of ideas. The result is that doors of these institutions are opened for the distributors who sell our products.

The success of these marketing methods—for our distributors as well as for Maryland Cup—has been attested by the wholesalers themselves. For the fifth year in a row, in a poll conducted by Institutional Distribution Magazine, Maryland Cup in 1975 was voted the industry leader in the field of disposables by both management and sales forces of leading distribution firms for the sales and merchandising assistance the Company provides.

15 Billion Institutional Meals a Year

More than 15 billion meals are served annually in the principal institutional markets targeted by Maryland Cup for long-term growth. The current size and scope of these markets was the subject of an internal company study based on latest available statistics or estimates. A summary follows:

Hospitals: 7,125, with average daily bed occupancy of 1,188,000; approximately 1.3 billion patient meals served annually and another 1.3 billion staff and visitor meals. Total: 2.6 billion.

Nursing Homes: Approximately 16,000, with an average of 1,074,480 patients daily. Approximately 1.176 billion patient meals and 784.3 million between-meal snacks served annually for a total of 1.96 billion. Staff and visitor meals bring total served to well above 2 billion a year.

Schools: An estimated 88,450 schools in school lunch program in 1975 and 13,800 in school breakfast program; at peak participation, 25.3 million lunches and 2 million breakfasts served daily, or more than 4.5 billion lunches and 350 million breakfasts during school year.

Colleges and Universities: 2,120 serving meals, 12,741,890 meals served daily; 2.37 billion meals served in the college year.

Business and Industry (1974 estimates): 43,750 establishments in the U.S.; 13,247,000 meals served daily; 3.325 billion meals served in a 251-day working year.

Fast Food

Dramatic Changes in Eating Habits Spur Continued Growth of Fast Food Chains

Sweetheart matching service lightens the tray load for waitress (left) and brightens the menu for families eating out (right).

Fast food restaurants—whose service is based almost entirely on disposables—had a remarkable year in 1975. In face of the recession the 100 leading food service chains—including 40 big chains identified as fast food operations—are estimated to have increased their volume by 14 percent in their 1975 fiscal year. The 40 major fast food organizations now have a total of 42,570 restaurants and project that they will add about 4,000 more in the year ending July 1, 1976. This does not include hundreds of smaller chains and the thousands of independent fast food and drive-in operations throughout the country.

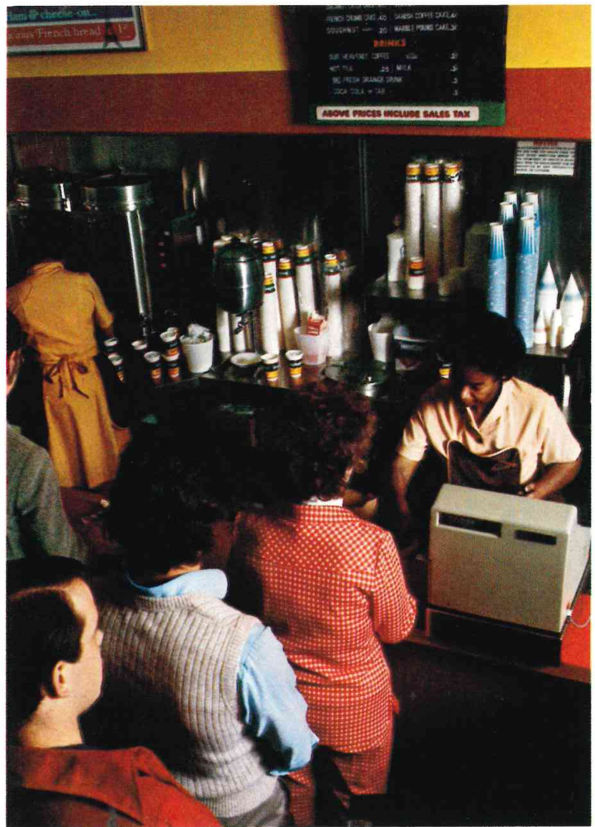
This continuing growth of the fast food industry was again reflected in Maryland Cup sales, since the Company is one of the principal suppliers of special imprint cups and other single service products to the chains, as well as to the independents. Among the Company's large customers are such major organizations as McDonald's, Burger King, Red Barn, Pizza Hut, Hardee's, Friendly, Arby's, Tastee-Freeze, Baskin-Robbins, Marriott and Howard Johnson's.

The expansion of fast food service in a year when some prophets of doom were predicting disaster can be attributed to a number of factors.

In a period when retail food prices were skyrocketing, most fast food operations were able to maintain prices at reasonable levels and provide excellent values, with the result that eating out became comparatively less expensive than eating at home.

More than ever before the fast food way of eating out became part of the American family's lifestyle in 1975. According to preliminary findings of a new Bureau of Labor Statistics study,

"Eat-It-All" Cone sales are up as hand-dipped ice cream grows more popular.



Disposables make it possible to handle heavy traffic speedily at take-out counters.

families in which the head of household is under 25—the fast food generation—now spend almost 50 percent of their food dollars on meals away from home. This is almost twice the national average.

To reach new customers, many fast food chains have begun to expand their service to include breakfast. At the same time, a growing number of fast food operations are adding menu items to broaden their appeal for family dining.

Another factor was the dramatic change during the year in the way American families spent their recreation and leisure dollars. More money was spent on daily pleasures, such as eating out. Instead of taking expensive trips, Americans stayed closer to home or flocked to the major theme and amusement parks throughout the country or to nearby recreational areas—where fast food service is important. Drive-ins profited by the travel.

In another segment of the leisure-time market—sports stadiums and arenas—Maryland Cup also had a successful year. Contributing to our volume was increasing use of Speed-Fill drink dispensing and capping systems which provide a steady sales volume for the Company's cups. These semi-automatic systems permit the concessionaire to handle peak period volumes with less manpower. Nearly 700 are located in major sports arenas throughout the United States—including 13 in the huge new New Orleans Superdome.

Sales of hand-filled cones to ice cream chains and independent outlets were again at record levels, up sharply from 1974. This reflected the immense popularity of ice cream and the return of the ice cream parlor in a more modern form.

The Consumer Market

Sales Show Steady Growth in Year-Round Use of Disposables for the Home

Supermarket display of Sweetheart paper and plastic products provides consumers with everything from complete place settings to bathroom cups.

Despite a temporary tightening of consumer purse strings, particularly in spending on discretionary items, the Company's consumer division, Sweetheart Brands, substantially increased its sales volume in 1975. Contributing to these gains was an expansion of the division's nationwide sales and merchandising programs and the continuing growth in year-round use of single service tableware in the home.

As a percentage of annual volume in the consumer market, our winter-time sales have been increasing steadily, indicating a greater dependence on disposables for daily use and home entertaining. This trend can be expected to continue, particularly with the rising number of working mothers in the under-35 age brackets who accept single service disposables as part of daily living.

In the competition for shelf space in supermarkets, discount chains and other retail mass merchandising outlets, Sweetheart Brands reaped the benefits during the year of its "total product mix" and merchandising programs. The fact that the division provides the widest variety of quality food service disposable products from a single supplier—with all products available in one shipment—spurred sales both to existing customers and to new accounts. For the stores, the division supplied special displays and in-store promotions to help move the products.

Introduced during the year was a new "Dynamic" line of matched hot and cold paper cups and plastic-coated plates with a striking red, white and blue design. This design provides a Bicentennial motif but is adaptable to any table setting.

Particularly successful during the year were sales of Maryland Cup's Tem-T ice cream cones for home use.

Dairy and Food Packaging

Container Sales at Record Levels; Big Gains Made in Cultured Products

Maryland Cup's 1975 sales of containers for dairy and food packaging were at record levels and showed the highest rate of increase for any segment of the Company's business. Utilizing the systems marketing approach which has proved highly successful in the ice cream industry, significant gains were made in the steadily expanding field of cultured products—cottage cheese, yogurt, sour cream, dips, etc. Maryland Cup now serves many of the nation's major cultured food processors, and, while a relative newcomer in this market, has become an important factor in it. At the same time, booming sales of quality packaged ice cream helped spur volume of the round premium ice cream containers of which the Company is a leading manufacturer.

Contributing to the enlargement of Maryland Cup's share of the dairy and food packaging market was new company-designed equipment which provides highly accurate control in filling of varied cultured products, and new containers—with greater merchandising appeal—for both ice cream and cultured products.

One element in our packaging growth was the fact that a number of our ice cream accounts also process cultured dairy products. These processors, who are familiar with our comprehensive programs—which include equipment, product, service and merchandising—also became customers during the year for our cultured product containers. Among the large firms for which we now provide these containers are Borden, H. P. Hood, Dean Foods, Hawthorn Mellody, Safeway, Pet, Dairylea, Farmbest, and Alpha Beta markets.

The market for cultured products has been growing every year in the past decade. Since 1970, sales of yogurt, once an esoteric food, have almost doubled and now require about 700 million containers annually. Cottage cheese volume is now more than a billion pounds annually, requiring more than 800 million containers of various sizes.

In ice cream, sales of round nested paper pint and quart containers—and the popular new half gallon size introduced in 1974—climbed steadily as consumers showed a strong preference for premium quality ice cream, which is almost always sold in round containers. Deluxe brands packaged in our round containers include Lady Borden, Louis Sherry, Breyers, Howard Johnson's, Haagen Daz, and a newcomer to the business, Sara Lee.

In cultured products, sales were significantly helped by the development of the volumetric filling valve, which when used in conjunction with our Flex-E-Fill equipment provides extremely accurate measurement in packaging of semi-solid foods such as yogurt, sour cream, dips, cottage cheese, and salads.

Also, for the cultured products market, the Company introduced a unique Hi-Gloss® line of co-extruded plastic containers—crystal styrene on the outside, high impact styrene on the inside—in 17 different sizes. These containers have a lustrous outer surface which provides a brilliant background for the design, and extraordinary visibility on the store shelf, an obvious marketing aid.

The Maryland Cup Food Pac machine, a high-speed multi-line filler, using either heat seal foil covers or plastic lids, was installed for a number of large processors of juice and yogurt, among them H. P. Hood, Sunkist, Borden, Dairylea and Southland.

Other growing markets for Maryland Cup containers in 1975 included prepackaged foods and desserts for the institutional field. "Super Shake" cups were introduced for the school lunch program. The 12-ounce "Super Shake"—which can be prepacked in our cups at a dairy, utilizing the Flex-E-Fill equipment—can supply the minimum daily school requirement for milk. Prepackaged shakes also have been introduced in the vending industry. The Company broadened its line of juice and preportioned dessert cups to enable schools to take better advantage of the Government's surplus commodity program. Surplus orange juice, for example, is being supplied in our paper and plastic "Frosty Fruit" cups as a nutritional frozen dessert.

Food Pac equipment specially developed by Maryland Cup has helped expand sales of the Company's cultured products containers. Above, a packaging line at an up-state New York dairy.

New Hi-Gloss® plastic containers for cultured dairy products provide not only good packaging but also eye-catching display on store shelves.

Maryland Cup's colorful round nested containers help merchandise quality brands of ice cream.

Management's Discussion and Analysis of Summary of Operations

A. Sales: Sales during each of the four quarters of fiscal 1975 reached new records, resulting in an annual increase of 16 percent over those of the preceding year due principally to inflation and increased unit volume. This was achieved despite the weak economic climate prevailing early in the year. The inplant feeding and vending segments of our business were affected by the recession, particularly in areas of maximum unemployment.

Our sales of disposables to the institutional market and to dairy and food packagers are less sensitive to economic activity and did well. New records in sales were made to the fast food operators. Our ice cream cone divisions also had record sales.

In fiscal 1974, sales increased approximately 21 percent over those of the prior year, due to an increase in unit volume representing an increased demand for disposable food service ware and containers, and inflated sales prices.

B. Cost of Goods Sold: Cost of goods sold increased in proportion to sales (17 percent). Many of our customers, especially wholesalers, reduced inventories, particularly during our second quarter, resulting in fewer orders. Lower sales necessitated a reduction in production, further adding to our cost of goods sold. We continued the reduced production through August enabling us to bring inventories into balance at year-end. This, together with general inflationary increases, were the principal causes for the decrease in the percentage of gross profit. At present, we are running all of our paper and plastic productive equipment.

In 1974, cost of goods sold increased 28 percent over the prior year because of the change in method of pricing inventory (from the average cost method to the last-in, first-out "LIFO" method) and the increased sales volume.

C. Selling, General and Administrative Expenses: Selling, General and Administrative Expenses increased approximately 12 percent. However, these expenses as a percentage of sales dropped .8 percent. Inflation, and an expanded level of administrative controls were the prime reasons for these increases.

In 1974, selling, general and administrative expenses and other income or expenses experienced a 15 percent increase over those of fiscal 1973 due to inflation and general increased costs relating to the sales volume increase.

D. Depreciation: Increases in depreciation expense in 1975 and 1974 were due to the higher levels of investments in operating equipment.

E. Interest: The increase in interest expense in 1975 by approximately 22 percent over that of 1974, is primarily the result of the $25 million private placement of May 21, 1975.

In 1974, interest expense increased approximately 32 percent over that of the preceding year due to an increased level of short term borrowings and higher interest rates.

F. Other Income (Net): Other Income increased $338,706, representing principally the additional interest income resulting from the short term investments acquired from the proceeds of the new long term debt.

G. Foreign: The share of net loss of foreign companies in 1975 ($251,735) as compared with a share of net income of $470,492 in 1974 resulted from the disappointing performance of our foreign operations. The depressed economy in England resulted in losses for 1975; economic conditions in Europe generally also worsened. Efforts to broaden the product lines in Europe have been stepped up.

H. The Financial Condition: The financial condition of the Company showed a decided improvement in 1975. Working capital increased $25,171,579 over 1974. Funds provided from operations increased from $20,562,356 to $23,436,166. Our liquidity ratio of 4.65 to 1 is the highest in the history of the Company.

I. Summary: By year end, the continued demand for Maryland Cup's products, the growth of the markets we serve and the diligent efforts of our entire organization, enabled us to again report substantial sales gains and increased profits.

Consolidated Balance Sheet

Maryland Cup Corporation and Consolidated Subsidiaries
September 30, 1975 and 1974

Assets	1975	1974
Cash	$ 2,796,165	$ 2,395,258
Short-term investments, at cost, which approximates market	17,150,000	—
Accounts receivable, less allowances: 1975—$792,575; 1974—$953,802	26,429,255	26,669,376
Refundable income taxes	890,489	2,854,079
Inventories (Notes 1 and 2)	39,865,373	43,914,073
Total current assets	87,131,282	75,832,786
Investments, at equity (Note 1)	3,087,817	3,265,819
Operating properties, at cost, net of allowance for depreciation and amortization (Notes 1 and 3)	111,225,757	103,758,351
Deferred charges and other assets	2,582,304	2,055,897
	$204,027,160	$184,912,853
Liabilities		
Notes payable	358,527	14,648,405
Accounts payable and accrued expenses	15,039,582	16,714,356
Federal and state taxes on income	2,721,900	630,331
Long-term liabilities payable within one year	586,562	586,562
Total current liabilities	18,706,571	32,579,654
Long-term liabilities (Note 4)	65,032,096	41,325,738
Deferred income taxes (Notes 1 and 5)	11,781,727	10,686,202
Unfunded pension liability (Note 9)	998,032	910,312
	96,518,426	85,501,906
Stockholders' Equity		
Capital stock (Notes 6 and 7):		
Preferred	414,600	414,600
Common	4,339,990	4,339,990
Capital surplus (no change during years)	33,414,435	33,414,435
Retained earnings (Note 8)	69,339,709	61,241,922
	107,508,734	99,410,947
	$204,027,160	$184,912,853

See accompanying notes.

Consolidated Statement of Operations and Surplus

Maryland Cup Corporation and Consolidated Subsidiaries
for the years ended September 30, 1975 and 1974

	1975	1974
Net sales	**$264,818,621**	$228,425,132
Cost of sales	**185,142,403**	158,654,366
	79,676,218	69,770,766
Selling, general and administrative expenses	**55,917,298**	50,003,272
	23,758,920	19,767,494
Other income, including in 1975 interest income of $303,394, less other charges	**799,328**	460,622
	24,558,248	20,228,116
Interest expense	**4,674,207**	3,819,256
	19,884,041	16,408,860
Provision for federal and state taxes on income (Notes 1 and 5)	**9,166,019**	7,564,544
	10,718,022	8,844,316
Share of net income (loss) of foreign companies	**(251,735)**	470,492
Net income	**10,466,287**	9,314,808
Retained earnings at beginning of year	**61,241,922**	54,295,614
	71,708,209	63,610,422
Cash dividends:		
On 6% preferred, $6 a share	**24,876**	24,876
On common, $.54 a share	**2,343,624**	2,343,624
	2,368,500	2,368,500
Retained earnings at end of year (Note 8)	**$ 69,339,709**	$ 61,241,922
Capital surplus	**$ 33,414,435**	$ 33,414,435
Total surplus	**$102,754,144**	$ 94,656,357
Earnings per share of common stock (Note 10):		
Primary	**$2.41**	$2.14
Fully diluted	**$2.32**	$2.07

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Maryland Cup Corporation and Consolidated Subsidiaries
for the years ended September 30, 1975 and 1974

	1975	1974
Source of working capital		
From operations:		
Net income	**$10,466,287**	$ 9,314,808
Charges (credits) not requiring current outlay of working capital:		
Share of (net income) loss of foreign companies	**251,735**	(470,492)
Depreciation and amortization	**11,451,788**	10,894,598
Deferred taxes and amortization of investment credit, net	**1,095,525**	823,442
Unfunded supplemental pension costs	**170,831**	—
Total working capital provided from operations	**23,436,166**	20,562,356
Net proceeds from long-term borrowings	**24,737,516**	—
Operating properties	**158,833**	259,027
	48,332,515	20,821,383
Use of working capital:		
Operating properties and investments	**16,351,376**	14,893,315
Operating properties, Wilmington, Mass. distribution center	**2,207,904**	—
Parts inventory	**586,488**	381,535
Dividends paid	**2,368,500**	2,368,500
Reduction of long-term liabilities	**1,031,158**	2,419,972
Decrease in unfunded pension liability	**83,111**	147,187
Other, principally increase in deferred charges	**532,399**	223,089
	23,160,936	20,433,598
Increase in working capital	**25,171,579**	387,785
Working capital beginning of year	**43,253,132**	42,865,347
Working capital end of year	**$68,424,711**	$43,253,132
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	**400,907**	(304,174)
Short-term investments	**17,150,000**	—
Accounts receivable	**(240,121)**	4,146,868
Refundable income taxes	**(1,963,590)**	2,854,079
Inventories	**(4,048,700)**	6,287,344
Net change in current assets	**11,298,496**	12,984,117
Increase (decrease) in current liabilities:		
Notes payable	**(14,289,878)**	7,854,495
Accounts payable and accrued expenses	**(1,674,774)**	5,819,411
Federal and state taxes on income	**2,091,569**	(617,757)
Long-term liabilities payable within one year	—	(459,817)
Net change in current liabilities	**(13,873,083)**	12,596,332
Increase in working capital	**$25,171,579**	$ 387,785

See accompanying notes.

1. Summary of Accounting Policies:

A. *Principles of Consolidation:*

The consolidated financial statements include the accounts of all wholly-owned domestic subsidiaries after elimination of all material intercompany items. One wholly-owned subsidiary located in Canada and fifty-percent-owned companies located principally in foreign countries are accounted for as investments under the equity method.

B. *Inventories:*

Inventories are stated at the lower of cost or market, cost being determined under the last-in, first-out (LIFO) method.

C. *Depreciation and Amortization:*

The Company provides for depreciation of operating properties by charges to income over the estimated useful lives of such properties. Operating properties are depreciated principally on the straight-line method. Depreciation deductions for certain assets are determined for income tax purposes on accelerated methods and exceed book provisions on the straight-line method. The accumulated tax benefit is being deferred to subsequent periods when book provisions for depreciation will exceed the amounts allowed for income tax purposes. Leasehold improvements are being amortized generally over the period of the respective leases. Unamortized debt expense is being amortized over the term of the related debt.

D. *Investment Credit:*

Tax savings resulting from the investment credit are being taken into income over the useful lives of the property to which the credit relates.

2. Inventories:

	September 30, 1975	September 30, 1974
Finished goods	$29,876,555	$32,420,498
Raw materials, supplies and work in process	9,988,818	11,493,575
	$39,865,373	$43,914,073

If the average cost method of inventory accounting had been used by the Company, inventories would have been $13,512,792 and $10,082,306 higher than reported at September 30, 1975 and September 30, 1974, respectively. The reduction in inventory levels increased net income by $650,000.

3. Operating Properties:

	1975 Cost	1975 Accumulated Depreciation	1974 Cost	1974 Accumulated Depreciation
Land	$ 5,121,677		$ 4,981,090	
Buildings and improvements	41,553,868	$10,471,124	40,576,507	$ 9,292,138
Machinery and equipment	133,999,688	76,834,764	120,472,593	67,062,039
Leasehold improvements	143,426	79,932	126,928	66,415
Construction in progress:				
Buildings	2,457,804		199,900	
Machinery and equipment	10,363,227		9,436,526	
Parts inventory	4,971,887		4,385,399	
	$198,611,577	$87,385,820	$180,178,943	$76,420,592

4. Long-Term Liabilities:

	1975	1974
5½% Notes, $325,000 payable annually through 1979, balance October 1, 1980	$ 2,100,000	$ 2,425,000
5% Notes, $215,000 payable annually through 1982, balance March 1, 1983	2,065,000	2,280,000
5% Notes, $200,000 payable annually through 1980, and $400,000 payable annually commencing January 1, 1981 through 1985, balance January 1, 1986	3,800,000	4,000,000
7% Notes due officers, directors or stockholders, installments payable quarterly through June 30, 1991	1,448,929	1,562,956
5.8% Sinking Fund Debentures, due February 1, 1992. Face amount outstanding: 1975—$9,146,000, 1974—$9,266,000	9,040,651	9,152,782
5⅛% Convertible Subordinated Debentures, due April 1, 1994	20,000,000	20,000,000
9⅞% Notes, due May 15, 1995. Face amount outstanding: 1975, $25,000,000	24,737,516	—
Capitalized lease obligations (principally lease expiring March 1, 1993, subject to Rockdale County, Georgia, 4.3% to 5.2% revenue bonds maturing serially in annual amounts from $65,000 to $160,000 in 1993, payable by the Company)	1,840,000	1,905,000
	$65,032,096	$41,325,738

The 7% notes due officers, directors or stockholders were issued in connection with the acquisition of certain properties, at a cost of $2,134,537 (based on independent appraisals), in which the Shapiro family had substantial interests. This was in accordance with an agreement with the New York Stock Exchange for the Shapiro family to dispose of real estate which it controlled and rented to the Company.

The indenture relating to the 5.8% sinking fund debentures due February 1, 1992, provides for the redemption of $600,000 principal amount of debentures annually through 1991 through operation of a Sinking Fund. The Company, at its option, may provide for the redemption of an additional $600,000 or any portion thereof in each such year through operation of the Sinking Fund. The debentures are redeemable at any time at the option of the Company at prices ranging from 103.48% of principal amount in 1975 to 100% of principal amount in 1987 and thereafter. During the current year, the Company purchased $120,000 of the debentures for future Sinking Fund operations and realized a gain of $17,500 net of provision for deferred taxes.

The 5⅛% convertible subordinated debentures due April 1, 1994, are convertible into common stock at $51.94 a share at any time. The indenture relating to the debentures provides for the redemption of $1,000,000 principal amount of debentures on April 1 in each of the years 1980 through 1993 through operation of a Sinking Fund. The debentures are redeemable at the option of the Company at any time as a whole or from time to time in part at prices ranging from 103.50% of principal amount in 1975 to 100% of principal amount in 1989 and thereafter.

The note agreement relating to the 9⅞% notes due May 15, 1995 provides for repayment of $1,667,000 annually beginning May 15, 1981 through 1994, with the balance due May 15, 1995. The Company, at its option, may prepay an additional $1,667,000 at the time any required payment is due or the Company may prepay the Notes in whole or in part at anytime at prices ranging from 109.88% of the principal amount in 1976 to 100% of the principal amount in 1995.

Land, buildings and machinery and equipment includes $1,102,369 related to the principal capitalized lease obligation. The Company and its co-owners guarantee approximately $1,900,000 each of long-term debt of the fifty-percent-owned companies.

5. Income Taxes:

The Company and its subsidiaries file separate federal income tax returns. The provision for federal and state income taxes is:

	1975	1974
Currently payable	$8,070,494	$6,741,102
Deferred	1,095,525	823,442
	$9,166,019	$7,564,544

A summary of income taxes deferred to future years follows:

	Balance October 1, 1974	Provision	Balance September 30, 1975
Tax effect of excess of tax over book depreciation	$ 8,170,844	$ 629,127	$ 8,799,971
Tax effect of unfunded pension costs	(508,499)	(38,914)	(547,413)
Tax effect of gain on repurchase of 5.8% sinking fund debentures	200,715	(18,847)	181,868
Investment credit	2,823,142	524,159	3,347,301
	$10,686,202	$1,095,525	$11,781,727

The provision for deferred investment credit represents realized investment credits (1975—$1,165,325; 1974—$654,374) less amortization of prior years credit (1975—$641,166; 1974—$599,780).

6. Capital Stock:

	Shares 1975	Shares 1974
Preferred, 6% cumulative, $100 par value, redeemable at $100 a share plus accrued dividends:		
Authorized	10,000	10,000
Outstanding (no change during the years)	4,146	4,146
Common, $1 par value:		
Authorized	7,500,000	7,500,000
Outstanding (no change during the years)	4,339,990	4,339,990

At September 30, 1975, 48,234 shares of common stock were reserved for issuance under the Company's stock option plans and 385,060 shares of common stock were reserved for issuance upon conversion of the 5⅛% Convertible Subordinated Debentures.

7. Stock Options:

Under a stock option plan adopted in 1971, 22,119 shares are subject to option (14,872 exercisable) as of September 30, 1975 at prices principally ranging from $31.13 to $37.93 per share. No options were exercised during 1974 and 1975. At September 30, 1975, 26,115 shares are reserved for granting additional options.

8. Dividend Restrictions:

Under the provisions of certain agreements relating to long-term liabilities, there are certain restrictions with respect to the payment of dividends (other than stock dividends) on the capital stock of the Company, the purchase, redemption or retirement of its capital shares and loans to and investment in certain subsidiaries. At September 30, 1975, under the most restrictive of the agreements, approximately $13,000,000 of retained earnings was free of such restrictions.

9. Pension Plans:

The Company has a trusteed noncontributory pension plan covering substantially all salaried employees meeting certain age and service requirements. The policy of the Company is to fund pension costs accrued, which include amortization of past service costs (approximately $3,400,000 at September 30, 1975) over a period of 30 years. $947,000 and $915,000 were charged to operations in 1975 and 1974, as pension costs under this plan. The actuarially computed value of vested benefits for this plan as of the latest actuarial valuation exceeded the total of the pension fund and balance sheet accruals by $4,000,000. The Employee Retirement Income Security Act of 1974 will not have a significant effect on this plan.

The Company also has several noncontributory pension plans, covering substantially all hourly employees, which were unfunded prior to 1974. In 1974, the Company began funding current year's pension costs plus a portion of the unfunded liability for these plans. Pension costs charged against operations amounted to $492,000 and $441,000 in 1975 and 1974, under these plans, including amortization of past service costs (approximately $2,700,000 at September 30, 1975) over a period of 40 years. It is estimated that the Employee Retirement Income Security Act of 1974 will increase annual pension costs under these plans by approximately $102,000 and will cause the actuarially computed value of vested benefits to exceed the total of the pension fund and the unfunded liability by approximately $900,000.

During 1975, the Company initiated an unfunded supplemental pension plan for officers-directors meeting certain service requirements. In 1975, $170,831 was charged to operations as pension costs under this plan. The provision includes amortization of past service costs over a period of 20 years. Past service costs at September 30, 1975 were approximately $1,800,000.

10. Earnings Per Share:

Primary earnings per share are based on a weighted average of 4,339,990 shares in 1975 and 1974. Fully diluted earnings per share are based on a weighted average of 4,725,050 shares in 1975 and 1974, giving effect to the shares issuable upon conversion of the 5⅛% debentures and the exercise of any outstanding dilutive options.

11. Borrowing Arrangements:

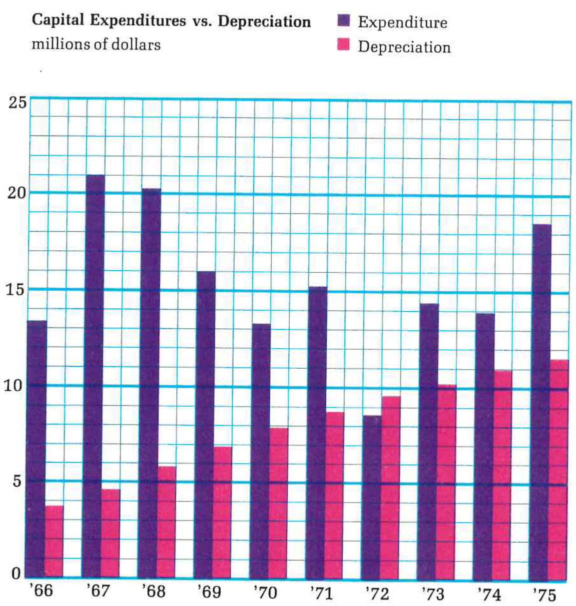
At September 30, 1975 the Company had no short-term bank borrowings, but maintained unsecured lines of credit aggregating $15,000,000 (interest to be at prime commercial rate). Average borrowings outstanding during the year were approximately $16,000,000 and the highest level of borrowings during the year was $30,400,000 at March 31, 1975. The weighted average interest rate on these borrowings was approximately 9.4%.

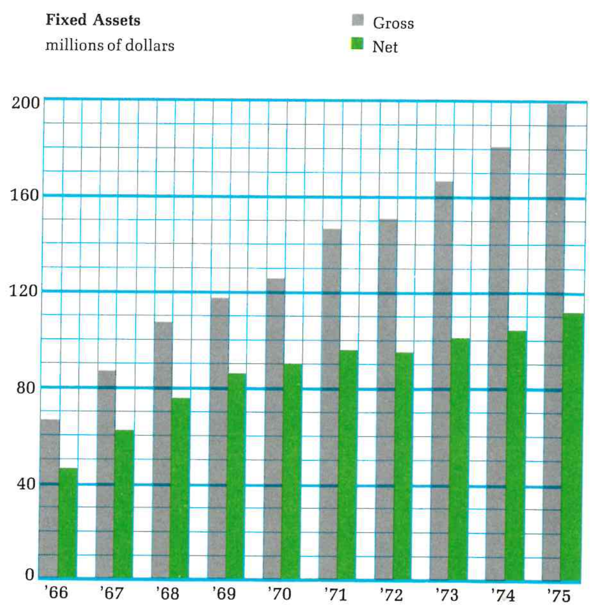
Ten Year Financial Summary
Except for per share figures, all amounts are in thousands.

	1975*	1974*	1973
Net Sales	**$264,819**	$228,425	$189,454
Income Before Taxes—Domestic	**19,884**	16,409	19,276
Net Income—Domestic	**10,718**	8,844	10,155
Primary Earnings Per Share—Domestic	**2.46**	2.03	2.33
Fully Diluted Earnings Per Share—Domestic	**2.37**	1.97	2.25
Consolidated Earnings Per Share	**2.41**	2.14	2.31
Consolidated Fully Diluted Earnings Per Share	**2.32**	2.07	2.23
Common Stock Outstanding, End of Period	**4,339**	4,339	4,339
Cash Dividends Paid on Common Shares	**2,344**	2,344	2,170
Book Value Per Share	**24.68**	22.81	21.21
Shareholders' Equity	**107,509**	99,411	92,465
Total Assets	**204,027**	184,913	167,114
Long-Term Liabilities	**65,032**	41,326	43,746
Working Capital	**68,425**	43,253	42,865
Operating Properties, Net	**111,226**	103,758	100,157
Capital Expenditures	**18,559**	13,945	14,560
Interest Expense	**4,674**	3,819	2,897
Depreciation & Amortization	**11,452**	10,894	10,128

*1975 and 1974 earnings reported under LIFO.
**Foreign operations were immaterial in these years.

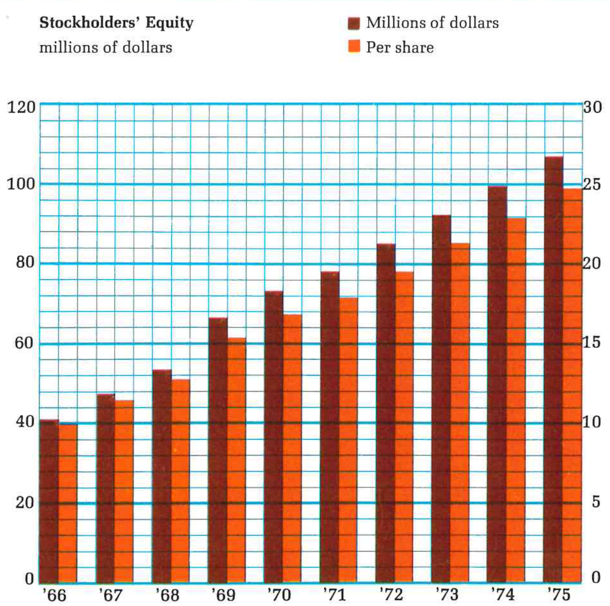
See page 14 for Management's discussion and analysis of summary of operations.



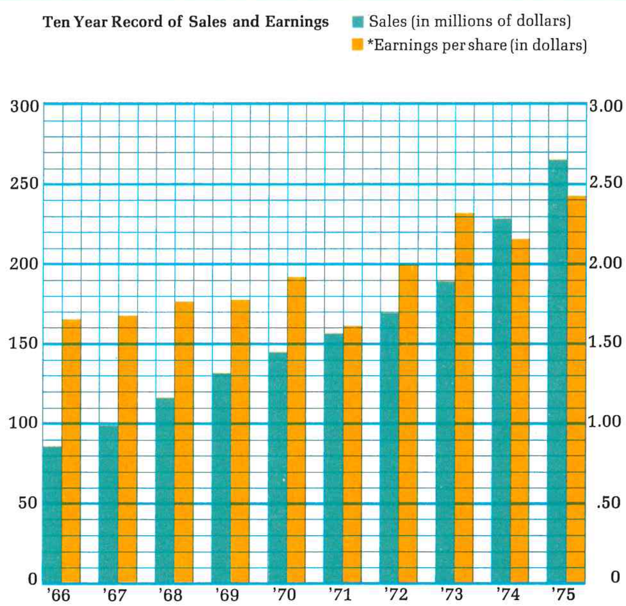


1972	1971	1970	1969	1968	1967	1966
$169,475	$156,644	$144,347	$130,961	$115,847	$98,609	$85,054
17,315	12,905	16,461	15,348	14,543	12,661	12,919
9,012	6,972	8,311	7,477	7,328	6,915	6,782
2.07	1.60	1.91	1.77	1.76	1.67	1.64
2.01	1.57	1.85	1.70	1.71	1.64	1.63
1.99	**	**	**	**	**	**
1.94						
4,339	4,339	4,333	4,332	4,127	4,122	4,111
2,170	2,169	1,817	1,737	1,612	1,305	1,273
19.40	17.80	16.70	15.21	12.68	11.30	9.94
84,908	77,982	73,102	66,637	53,074	47,352	41,636
154,016	154,245	144,943	132,235	117,481	98,102	72,055
46,170	57,263	46,008	46,917	35,764	34,194	17,387
43,601	46,324	35,250	34,296	17,254	22,970	16,198
94,335	95,002	89,127	84,374	75,451	61,386	45,277
8,622	15,159	13,279	15,991	20,178	20,998	13,333
2,979	3,374	3,030	2,961	2,564	1,627	1,032
9,531	8,761	7,868	6,899	5,848	4,596	3,758

Stockholders' Equity
millions of dollars



Ten Year Record of Sales and Earnings



*Prior years adjusted for stock dividends and stock split to date.

Report of Independent Certified Public Accountants

To the Stockholders of
Maryland Cup Corporation:

We have examined the consolidated balance sheet of Maryland Cup Corporation and consolidated subsidiaries as of September 30, 1975, and the related statements of operations and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the year ended September 30, 1974.

In our opinion, the financial statements referred to above (pages 15-21) present fairly the consolidated financial position of Maryland Cup Corporation and consolidated subsidiaries at September 30, 1975 and 1974, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Baltimore, Maryland
November 26, 1975

Market Price Range, Earnings and Dividends Per Common Share

	Market Price Range Common Shares				Primary Earnings Per Share		Dividend Per Share	
Quarter	1975		1974		1975	1974	1975	1974
First	13¾	10¼	24	12⅝	$ .21	$ .16	$.13½	$.13½
Second	16⅜	11⅝	19¼	13¼	.09	.21	.13½	.13½
Third	15¾	12½	20⅜	15⅛	.82	.62	.13½	.13½
Fourth	16⅞	13¾	16⅜	11¼	1.29	1.15	.13½	.13½
					$ 2.41	$ 2.14	$.54	$.54

Board of Directors

Merrill L. Bank, Vice Chairman
Executive Vice President

Milton C. Borenstein
Senior Vice President

Herbert Chernis
Vice President

Edward M. Cummings
Executive Vice President
Continental Illinois National Bank
& Trust Company of Chicago

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Vice President, Treasurer

Eugene Foreman
Vice President Finance, Secretary

Morton C. Gilden
Vice President Operations

Herbert Chernis
Vice President

Arnold Shapiro
Vice President

Edward Shapiro
Vice President

General Counsel

Burke, Gerber & Wilen

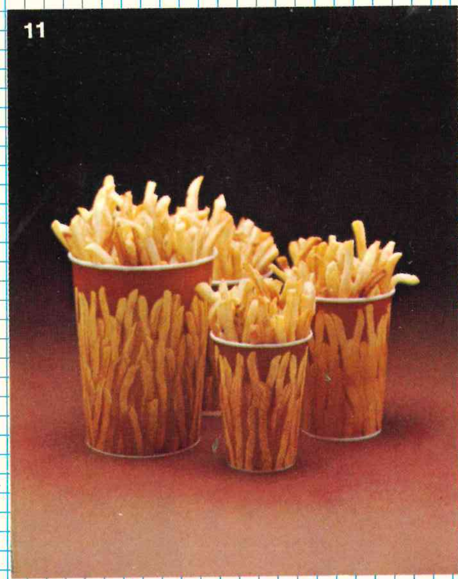
Auditors

Coopers & Lybrand

Transfer Agents & Registrars

Continental Illinois National
Bank & Trust Company of Chicago

Chemical Bank New York Trust
Company



The Diversity of Maryland Cup Products

Front Cover:

1. New popcorn cups
2. Service for a fast food meal
3. Plastic portion control juice cups
4. Simple Elegance plastic service
5. Flex Straws
6. "All-American" ice cream novelties
7. Monkey Metrics cup
8. Plastic snack tray, coffee cup and holder
9. Sweetheart Serving System Cart

Back Cover:

10. Special imprint match books
11. New french fry cups
12. "Dynamic" consumer packages
13. "Eat-It-All" ice cream cones
14. "Super-Shake" and "Frosty Fruit" containers
15. Bicentennial vending cups
16. Chinese food take-out containers
17. Plastic stirrer in drink cup